



# Public Service Commission of Wisconsin

Eric Callisto, Chairperson  
Mark Meyer, Commissioner  
Lauren Azar, Commissioner

610 North Whitney Way  
P.O. Box 7854  
Madison, WI 53707-7854

October 13, 2009

Mr. Robin Piper – **Sent Electronically**  
Finance / Accounting Manager  
Madison Water Utility  
[rpiper@madisonwater.org](mailto:rpiper@madisonwater.org)

Re: Revenue Requirement Exhibit

3280-WR-111

Dear Mr. Piper:

Enclosed is a copy of the Public Service Commission staff's (staff) proposed 2009 test year Revenue Requirement Exhibit (exhibit) to be presented at the hearing for the City of Madison Water Utility (utility). Dave Prochaska, Rate Analyst, will soon be performing a cost of service study and proposed rate design. Therefore, please review the enclosed exhibit since it will be the basis for the cost of service study.

Enclosed as Schedule 5 is the list of depreciation rates that is the basis of staff's estimated depreciation expense for the test year. When the order is issued in docket 3280-WR-111, these rates will be certified for use by your utility effective January 1, 2009.

After reviewing, please confirm by Electronic Regulatory Filing (ERF) that the utility is in agreement with staff's revenue requirement proposal as set forth in the enclosed exhibit by October 20, 2009. If the utility is not in agreement, please detail this in your reply.

If you have any questions regarding the above, please contact me at (608) 267-0637 or by e-mail at [bridgot.gysbers@psc.state.wi.us](mailto:bridgot.gysbers@psc.state.wi.us). If you have any questions regarding the status of your rate case, please contact Dave Prochaska at (608) 266-5739 or by e-mail at [david.prochaska@psc.state.wi.us](mailto:david.prochaska@psc.state.wi.us).

Sincerely,

/s/ Bridgot A. Gysbers

Bridgot Gysbers  
Public Utility Auditor  
Division of Water, Compliance and Consumer Affairs

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cc: Tom Heikkinen, General Manager - [wutxh@madisonwater.org](mailto:wutxh@madisonwater.org)

Exhibit No. \_\_\_\_\_

Docket No. 3280-WR-111

Witness: Bridgot A. Gysbers

## **Madison Water Utility**

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**Estimated 2009 Operating Income Statement**

**Net Investment Rate Base**

**and 2009 Estimated Revenue Requirement**

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**Public Service Commission of Wisconsin**

**Division of Water, Compliance, and Consumer Affairs**

Madison Water Utility  
3280-WR-111

Estimated Operating Income Statement  
and Net Investment Rate Base  
2009 Test Year

	Utility Estimate	Adjustments		Staff Estimate
		No.	Amount	
Total Operating Revenues:	\$23,405,725	1	(\$378,784)	\$23,026,941
Operating Expenses:				
Source of Supply	\$316,500		\$0	\$316,500
Pumping	3,607,766	2	(327,400)	3,280,366
Water Treatment	888,000		0	888,000
Transmission and Distribution	5,364,100	3	(241,200)	5,122,900
Customer Accounts	713,900		0	713,900
Sales	0		0	0
Administrative and General	3,656,500	4	60,100	3,716,600
Total Operation & Maintenance Expenses	\$14,546,766		(\$508,500)	\$14,038,266
Depreciation	2,949,007		0	2,949,007
Amortization	0		0	0
Taxes	3,604,130		0	3,604,130
Total Operating Expenses	\$21,099,903		(\$508,500)	\$20,591,403
Net Operating Income (Loss)	\$2,305,822		\$129,716	\$2,435,538
Net Investment Rate Base:				
Utility Plant in Service	\$122,114,925		\$0	\$122,114,925
Less:				
Accumulated Provision for Depreciation	30,598,273		0	30,598,273
Net Plant in Service	\$91,516,652		\$0	\$91,516,652
Add: Materials and Supplies	669,696		0	669,696
Working Capital	5,128,100	5	(229,541)	4,898,559
Less: Regulatory Liability - pre-2003				
Depreciation on Contributed Plant	6,664,695		0	6,664,695
Net Investment Rate Base	\$90,649,753		\$0	\$90,420,212
Rate of Return	2.54%			2.69%

Madison Water Utility  
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Estimated Operating Income Statement  
Average Net Investment Rate Base and  
Revenue Requirement to Yield the Proposed Rate of Return  
2009 Test Year

	Staff Estimate	Increase Required	Proposed Rate Level
Total Operating Revenues:	\$23,026,941	\$4,798,079	\$27,825,020
Operating Expenses:			
Source of Supply	\$316,500		\$316,500
Pumping	3,280,366		3,280,366
Water Treatment	888,000		888,000
Transmission and Distribution	5,122,900		5,122,900
Customer Accounts	713,900		713,900
Sales	0		0
Administrative and General	3,716,600		3,716,600
Total Operation & Maintenance Expenses	\$14,038,266		\$14,038,266
Depreciation	2,949,007		2,949,007
Amortization	0		0
Taxes	3,604,130		3,604,130
Total Operating Expenses	\$20,591,403		\$20,591,403
Net Operating Income (Loss)	\$2,435,538		\$7,233,617
Net Investment Rate Base:			
Utility Plant in Service	\$122,114,925		\$122,114,925
Less:			
Accumulated Provision for Depreciation	30,598,273		30,598,273
Net Plant in Service	\$91,516,652		\$91,516,652
Add: Materials and Supplies	669,696		669,696
Working Capital	4,898,559		4,898,559
Less: Regulatory Liability - pre-2003			
Depreciation on Contributed Plant	6,664,695		6,664,695
Net Investment Rate Base	\$90,420,212		\$90,420,212
Rate of Return	2.69%		8.00%

Madison Water Utility  
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Estimated Operating Revenues  
2009 Test Year

	Utility Estimate	Adjustments		Staff Estimate
		No.	Amount	
Unmetered Sales to General Customers	\$50,400		\$0	\$50,400
Metered Sales to General Customers:				
Residential	\$9,050,552	1a	(\$100,360)	\$8,950,192
Commercial	7,385,807	1b	(119,041)	7,266,766
Industrial	1,091,643	1c	(26,195)	1,065,448
Total Metered Sales	\$17,528,002		(\$245,596)	\$17,282,406
Private Fire Protection	286,853		0	286,853
Public Fire Protection	2,266,959		0	2,266,959
Sales to Public Authorities	2,267,111	1d	(133,188)	2,133,923
Sales for Resale	248,000		0	248,000
Interdepartmental	0		0	0
Total Water Sales	\$22,647,325		(\$378,784)	\$22,268,541
Forfeited Discounts	153,800		0	153,800
Misc. Service Revenues	33,100		0	33,100
Rents of Water Property	420,000		0	420,000
Interdepartmental Rents	0		0	0
Other Water Revenues	151,500		0	151,500
Total Operating Revenues	<u>\$23,405,725</u>		<u>(\$378,784)</u>	<u>\$23,026,941</u>

Madison Water Utility  
3280-WR-111

Explanation of Staff Adjustments in Schedules 1 and 3

Particulars	Amount
<u>Adjustment No. 1</u>	
To adjust the utility's estimated operating revenues to the 2009 PSC estimate as follows:	(\$378,784)
a. To decrease Residential revenues to the utility's September 14, 2009, revised 2009 test year estimate of 4,315,823 Ccf and a customer count of 56,073. The reason for the adjustment is the utility has shown a trending decrease in Residential consumption since 2005.	(\$100,360)
b. To decrease Commercial revenues to the utility's September 14, 2009, revised 2009 test year estimate of 5,216,789 Ccf and a customer count of 8,796. The reason for the adjustment is the utility has shown a trending decrease in Commercial consumption since 2006.	(119,041)
c. To decrease Industrial revenues to the utility's September 14, 2009, revised 2009 test year estimate of 1,039,710 Ccf and a customer count of 51. The reason for the adjustment is the utility has shown a trending decrease in Industrial consumption since 2006.	(26,195)
d. To decrease Public Authority revenues to the utility's September 14, 2009, revised 2009 test year estimate of 1,952,466 Ccf and a customer count of 484. The reason for the adjustment is the utility has shown a trending decrease in Public Authority consumption since 2006.	(133,188)
Total Decrease	<u>(\$378,784)</u>
<u>Adjustment No. 2</u>	
To adjust the utility's estimated Pumping Expenses to the 2009 PSC estimate as follows:	(\$327,400)
a. To decrease the utility's estimated Power Purchased for Pumping to the 2009 PSC estimate of \$2,019,066. The estimate was based on the 2009 estimated sales of water, a four year average ratio of sales to pumpage, a four year average ratio of gallons pumped per kwh, and estimated cost per kWh at the 2008 level plus 10 percent (average increase).	(\$366,800)
b. To increase the utility's 2009 test year estimate for Miscellaneous Expense of \$320,500 to the PSC test year estimate of \$359,900. The reason for the adjustment is staff accepted the utility's June 13, 2009 revised amount of \$359,900 as the most reasonable for this account. The \$359,900 included an amount for back-up generation which was not included in the original 2009 test year estimate.	39,400
Total Decrease	<u>(\$327,400)</u>
<u>Adjustment No. 3</u>	
To decrease the utility's estimated Transmission and Distribution Expense to the 2009 PSC estimate of \$118,800. The estimate was based on a normalization for each tower which totals \$105,300 plus \$13,500 for routine expenses.	(\$241,200)

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Explanation of Staff Adjustments in Schedules 1 and 3

Particulars	Amount
<u>Adjustment No. 4</u>	
To increase the utility's estimated Employee Pensions and Benefit Expense to the PSC 2009 test year estimate of \$1,502,100.	\$60,100
- For Pension Expense staff used the calculated amount of \$412,700. This was based on the 2007-2008 average for routine expenses of \$265,300 plus \$147,400 for WRF unfunded obligation.	
- For Hospital Insurance Expense staff used the utility's, October 6, 2009, amount of \$1,223,000, which was based on an increase in insurance rates.	
- For Health Insurance Expense staff included the OPEB amount of \$50,476 due to GASB 45.	
- For Education and Training Expense staff used a 4-year average of \$28,700,	
- For Wage Insurance Expense staff accepted the utility's, October 6, 2009, amount of \$18,200, which was based on higher costs.	
<u>Adjustment No. 5</u>	
To decrease the utility's 2009 test year estimate for working capital of \$5,128,100 to the PSC estimate of \$4,898,559. Staff's calculation was based upon using staff 2009 test year estimate of \$14,038,266 for Operation and Maintenance Expense, \$434,472 for Social Security, and \$3,427,706 for PILOT, instead of the utility's estimates. The purpose of including this working capital calculation is due to the utility billing every 6-months.	(\$229,541)

Madison Water Utility  
Schedule of Depreciation Rates  
Docket 3280-WR-110  
Effective January 1, 2009

Schedule 5

<u>Account Number</u>	<u>Class of Plant</u>	<u>Depr. Rate</u>
SOURCE OF SUPPLY PLANT		
312	Collecting and Impounding Reservoirs	1.7%
314	Wells and Springs	2.9%
PUMPING PLANT		
321	Structures and Improvements	3.2%
323	Other Power Production Equipment	4.4%
325	Electric Pumping Equipment	4.4%
328	Other Pumping Equipment	4.4%
WATER TREATMENT PLANT		
331	Structures and Improvements	3.2%
332	Sand and Other Media Filtration Equipment	3.3%
334	Other Water Treatment Equipment	6.0%
TRANSMISSION AND DISTRIBUTION PLANT		
341	Structures and Improvements	3.2%
342	Distribution Reservoirs and Standpipes	1.9%
343	Transmission and Distribution Mains	1.3%
345	Services	2.9%
346	Meters	5.5%
348	Hydrants	2.2%
349	Other Transmission and Distribution Plant	5.0%
GENERAL PLANT		
390	Structures and Improvements	2.9%
391	Office Furniture and Equipment	5.8%
391.1	Computer Equipment	26.7%
392	Transportation Equipment - Note 1	UNIT
393	Stores Equipment	5.8%
394	Tools, Shop and Garage Equipment	5.8%
395	Laboratory Equipment	5.8%
396	Power Operated Equipment - Note 1	UNIT
397	Communication Equipment	9.2%
397.1	SCADA/Telemetry Equipment	9.2%

Note 1 - The utility uses a unit basis for Account 392 and Account 396, which is certified for use even though these are not the benchmark rates.